

OFFICE OF INSPECTOR GENERAL DEPARTMENT OF EDUCATION

1. The Department must address long-standing problems with financial management.

Department officials require accurate financial data in order to make informed decisions, manage for results and ensure integrity of operations.

The work performed on the Department's fiscal year (FY) 1998 financial statements resulted in a report containing a disclaimer of opinion on the financial statements due to weaknesses with the financial system. Weaknesses included the system's inability to perform a year-end closing process or produce automated consolidated financial statements. In addition, the Department did not adequately perform reconciliations and could not provide sufficient documentation supporting transactions.

A Report on Internal Control was also issued documenting seven weaknesses. The three most serious of these were as follows: the accounting system's inability to perform a year-end closing process or produce automated consolidated financial statements; the lack of proper or timely reconciliations of the accounting records; and, deficiencies in controls surrounding information systems.

Finally, a Report on Compliance with Laws and Regulations was issued documenting two instances of noncompliance. These were: failure to meet the March 1, 1999 statutory deadline for submission of audited financial statements to OMB, as required by the GMRA; and non-compliance with the system requirements of the Federal Financial Management Improvement Act (FFMIA) of 1996.

The Department was unable to receive an opinion on the FY 1995 and FY 1996 financial statements due primarily to a lack of reliable and complete data supporting the estimated liability for loan guarantees related to the Federal Family Education Loan Program (FFELP). This barrier to a clean opinion was overcome for the FY 1997 financial statements through an extraordinary data gathering effort by the Department, guaranty agencies and their independent public accountants, the OIG and its contract auditors at that time. This was the culmination of 18 months of effort that began initially for the FY 96 financial statement audit. This provided reliable and complete data independent from the Department's systems that enabled an opinion to be expressed.

From 1995 through 1998, repeat internal control weaknesses were reported in the areas of:

- reconciliation of Fund Balance with Treasury,
- overall monitoring of Department programs, and
- information systems controls.

There have been a total of 115 recommendations, of which 88 remain open and 27 are closed.

For fiscal year 1997, financial reporting was identified as a new significant control weakness. It was reported again in 1998. In contrast, in FY 1998 the Department was able to correct the longstanding significant control weakness related to its FFELP loan liability estimate.

Both the FY 1997 and FY 1998 Report on Compliance with Laws and Regulations contained the finding that the Department did not meet the statutory reporting date of March 1 and did not comply with the requirements of the FFMIA.

Looking ahead, responsibilities for fiscal year 1999 have been expanded to include preparing and auditing the financial statements of Student Financial Assistance (SFA) in addition to the Department's consolidated financial statements. We are committed to meeting the March 1st deadline for both audits.

2. Year 2000 remains a management challenge for the Department.

The Department has made significant progress in its preparations for the Year 2000 (Y2K) and has completed implementation and end-to-end testing of its internal systems. The primary challenge remaining is the readiness status of postsecondary institutions and elementary and secondary school districts. The Department conducted extensive outreach to these institutions, but risks remain. No matter how extensive its outreach efforts, the Department cannot ensure that its trading partners will become Y2K compliant. The Department's most recent surveys, conducted in September and October, show that more than one-third of postsecondary institutions and school districts were not yet fully Y2K compliant. Additionally, only 16 percent of approximately 7,000 postsecondary institutions have tested their data exchanges with the Department. These entities must take the steps necessary to mitigate Y2K risks for their organizations. The Department is taking steps to understand the readiness of its trading partners and provide additional testing opportunities to encourage schools to test their data exchanges.

As Year 2000 approaches, the Department is concentrating its efforts on testing and refining its Y2K business continuity and contingency plans. These plans document the Department's alternative procedures in the event of failures in its internal systems or the systems of its trading partners.

3. The Department must improve its security posture, policy and plans for its systems.

The Department must comply with security requirements of the Computer Security Act, Paperwork Reduction Act, and OMB Circular A-130. We are completing our review of the Department's security posture, policies and plans for its 14 mission critical systems and are identifying areas that need improvement. The 14 systems include 11 SFA systems, the Department of Education Central Automated Processing System (EDCAPS), its department-wide network (EDNET) and the Impact Aid System.

Our preliminary findings show weaknesses in the Department's security controls. These weaknesses represent noncompliance with significant requirements of Circular A-130. Because the Department is not adhering to significant requirements of the Circular, it may not be in

compliance with the Paperwork Reduction Act, which requires agencies to follow OMB's security policies, principles, standards and guidelines. Additionally, two of our findings may represent noncompliance with two requirements of the Computer Security Act.

We discussed our preliminary results with the Chief Information Officers (CIO) of the Department and Student Financial Assistance. Both CIOs were recently appointed. They stated that they recognize the seriousness of these issues and they are taking steps to address them.

4. The implementation of the Student Financial Assistance's Modernization Blueprint and Performance Plan present unique challenges.

Student Financial Assistance (SFA) recently released the third draft of its "Modernization Blueprint" (Blueprint), which represents the current plan to update and reengineer core business processes through applied technology. We have been reviewing SFA's draft modernization plans, including its roots in the Department's Easy Access for Students and Institutions (EASI) vision, first set forth as a directive from the Secretary of Education in 1995. Based on our observations, the key management challenges are as follows:

- Current and forecast business problems for SFA may not be adequately defined. Lack of definition could lead to the potential for increased cost and complexity due to scope and technology changes in later phases of the project to resolve unanticipated issues.
- Viable alternatives must be continually assessed during all phases of implementation to insure that they are the most cost effective.
- The impact of external factors on SFA planning may be understated.
- Technical challenges, such as platform scaling, may not be sufficiently appreciated.
- The project timetable may be unrealistic.
- Resources sufficient to complete the planned effort may not be available.
- The Blueprint's vision of "buy a little, test a little, fix a little" may prove unworkable.

The Blueprint is an ambitious proposal that depends on radical change at SFA, and by extension, the Department of Education as a whole. While the vision underlying this proposal reflects years of conscientious development and the application of countless hours of effort by Department staff and contractors, it appears that the resulting system plans still exist at a highly conceptual, idealized level.

In September 1999 we recommended that SFA conduct an in-process review of its modernization effort to determine if controls are in place for managing risks during the implementation phase. We also pointed out the importance of establishing controls in the early stages of a project to provide reasonable assurance that the project will be:

- Successful in meeting the defined objectives;
- Achieved at the lowest possible costs commensurate with the risks assumed; and
- Accomplished in the shortest possible timeframe commensurate with the risks assumed.

The Higher Education Act (HEA) requires the Chief Operating Officer for the Performance-Based Organization (PBO) and the Secretary to agree on, and make available to the public, a performance plan for the PBO for the succeeding five years that establishes measurable goals and objectives for the organization. Our comments, to date, on drafts of the plan have focused on the following areas: statutory reporting requirements under the HEA and the Government Performance and Results Act (GPRA), the unit cost calculation, the measures for both customer and employee satisfaction and balance between customer service and program integrity.

The challenge for SFA is to ensure that the implementation of this plan meets the responsibilities required of SFA by HEA in four key areas: improving service including making those programs more understandable to students and their parents, reducing costs, improvement and integration of support systems and delivery of information systems.

5. The Department's goal of "paperless" systems for SFA fund delivery creates new opportunities for efficiency and requires effective controls to ensure accountability, security and legal enforcement.

The Department is still considering ways to make its SFA program delivery systems electronic and paperless. We believe that the steps the Department is taking on a pilot project to conduct the student aid application and delivery process electronically over the World Wide Web, which is a part of a government-wide effort called "Access America," is a step in the right direction. Successful transition from the pilot project to full implementation of an electronic signature validation process that meets the requirements of the General Accounting Office (GAO) remains a challenge.

6. The Department needs to fully implement the Clinger-Cohen Act.

The Clinger-Cohen Act requires agencies to take steps to improve management of information technology. In March 1998, OIG reported that the Department had not achieved full compliance with important requirements of the Act. Since that time, the Department has made progress, however it has not fully implemented three key requirements:

- Implementation of a capital planning and investment control process;
- Development of a sound and integrated information technology architecture; and
- Assessment of the information resource management knowledge and skills of agency personnel and development of a plan to correct identified deficiencies.

In September 1999, OIG and the Office of Chief Information Officer agreed on a corrective action plan to address our audit recommendations. Completing these corrective actions will be a challenge for the Department's newly appointed CIO. The Department recently awarded a contract for assistance with development of an integrated information architecture over the next year, plans for full implementation of its capital planning and investment management process

for budget year 2002, and plans to complete skills assessments and training for information technology professionals by March 2000.

7. Obtaining quality data to measure the performance of its programs and to meet the reporting requirements of the Results Act presents significant challenges.

The Department's first performance report on fiscal year 1999, required by the Government Performance and Results Act of 1993 (Results Act), is due in March 2000. The Department's strategic plan and annual performance plans for 1999 and 2000 were rated among the highest by the GAO. However, the Department faces a significant challenge in obtaining quality data to measure the performance of its programs and to meet the reporting requirements of the Results Act because of its heavy dependence on third parties to provide the data.

The availability of quality data has been identified by both the Department and the GAO as a concern. The Department's annual plans have noted that the lack of integration of its SFA systems and its heavy dependence on external systems hampers its ability to provide timely and accurate information. GAO included the lack of quality data in its January 1999 report on Education Challenges. In that report, GAO noted that the absence of information often results from the nature of the programs themselves.

8. Balancing Compliance Monitoring and Technical Assistance Presents a Management Challenge for Elementary and Secondary Education Programs

In February 1999, we issued "An OIG Perspective on the Reauthorization of the Elementary and Secondary Education Act" that highlighted the need to improve compliance monitoring. We reported that with the increasing emphasis on accountability for results, it is important to consider the implications of this change on the oversight for the Department, State Education Agencies (SEAs), local educational agencies (LEAs), and schools.

We analyzed 39 state-level single audit reports and found that the most common type of finding related to weaknesses in the oversight of elementary and secondary programs. Of the state-level single audits, over half reported that SEA oversight of the LEAs was unsatisfactory. We recommended that the Department establish minimum standards for SEAs in monitoring LEA administration of Elementary and Secondary Education Act (ESEA) programs. We also recommended that the Department consider ways it can play a stronger role in ensuring ESEA program integrity. Many of our suggestions were adopted in the monitoring and reporting section of the 1999 Education Flexibility Partnership Act.

The Department has taken several steps to address monitoring concerns. The Department included in its proposal for reauthorizing the ESEA a section under Title XI that addresses State requirements for monitoring LEA compliance with ESEA. The section addresses the need for documenting monitoring activities, providing technical assistance, and analyzing the results of

audits and other monitoring activities to identify trends and develop strategies for correcting problems. The Office of Elementary and Secondary Education (OESE) also developed a monitoring instrument that will be used during integrated reviews at States that merges compliance monitoring and technical assistance.

OESE also invited the OIG to participate in a pilot program with three SEAs that will address making better use of LEA Single Audits for targeting monitoring and technical assistance activities. The pilot project will also develop training modules for auditors so they have a better understanding of ESEA programs and can provide the most useful audit reports.

The OIG and the Department are working with an interagency work group on issues relating to the Trust Territories. The group is currently working on delinquent Single Audits, oversight issues, Year 2000 readiness and other matters related to the Virgin Islands.

9. The Department must continue to work with the Internal Revenue Service to implement a data match to ensure that SFA recipients accurately report income to qualify for financial aid.

As previously reported, an OIG audit and numerous OIG investigations provided evidence that under-reporting of income by applicants for student aid and their parents is a serious and growing problem that is costing federal taxpayers hundreds of millions of dollars in overawards of Pell Grants and awards to ineligible persons. We performed a match of income data reported by 2.3 million student aid applicants with that reported to the Internal Revenue Service (IRS) in the 1995-96 award year.

We recommended that the Department be permitted to verify with the IRS the income information reported by students and their parents on the Free Application for Student Aid (FAFSA). Income and dependency elements are critical in calculating the expected family contribution needed to compute eligibility for student aid.

The Higher Education Act Amendments of 1998 (P.L. 105-244, October 7, 1998) provided the Department of Education with the authority to confirm with the Internal Revenue Service the adjusted gross income, Federal income taxes paid, filing status and exemptions reported by applicants (including parents) on their Federal income tax returns for the purpose of verifying the information reported by applicants on student financial aid applications.

The Department is discussing this matter with the IRS.